

13 August 2015

Growth Continues

The Performance of Manufacturing Index (PMI) indicates ongoing growth. It has been doing this for 34 consecutive months. The rate of progress has slowed a bit from last year, with the PMI averaging 53.5 in 2015 to date compared to the 56.0 average through 2014. But growth seems to be solidifying. July's PMI result exactly matches the average in the first half of the year. It is a solid start to the second half of the year. Buoyant production and the balance of new orders to inventory are encouraging signs for further expansion ahead.

Employment

The ongoing growth in the manufacturing sector, as indicated by the PMI over recent years has driven up labour demand. Latest statistics show employment in the sector is more than 10%, or 24,000 people, higher than a year earlier. That is very strong growth. Indeed, manufacturing accounted for more than a third of total employment growth across the country over the past year. This speed of employment expansion is unlikely to continue, but the outlook remains positive in line with the overall tones of the PMI and the trends in the employment index.

Foreign Exchange Effects

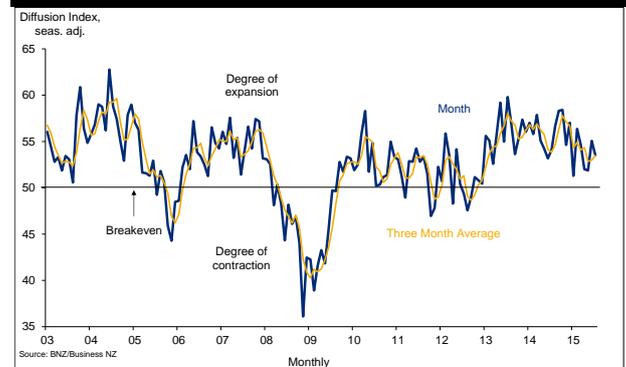
Many PMI respondents noted the lower NZD as a positive. This sentiment fits with results of other surveys. The recent Quarterly Survey of Business Opinion saw a jump in manufacturers' export sales expectations. The currency effect here is straight forward. It is less transparent for those competing with imports. That is an indirect effect. Over time, a lower currency makes imports more expensive to domestic buyers and will tilt expenditure towards domestic goods. This probably subtle change in demand for local product would be very difficult for manufacturers to link directly to a lower NZD, given all the other factors that are influencing domestic demand at the same time.

Dairy Impact

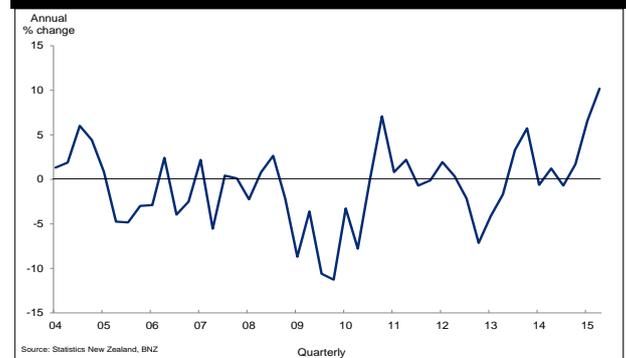
The extreme downturn in dairy revenue, actual and forecast, will have many downstream effects on the economy. Fonterra's recent milk price forecast of \$3.85 per kilogram of milksolids equates to dairy industry annual revenue in the year ahead being down about \$8b from the highs of the year before last. Many manufacturers noted the dairy weakness as a negative. No doubt there will be a drag from dairy. Despite this intense negative for some, it is encouraging to see the manufacturing sector as a whole remaining positive. Economic stabilisers like a lower NZD and lower interest rates are helpful in this regard. This is supportive for economic growth overall, although it will likely be at a slower pace than recently achieved.

doug_steel@bnz.co.nz

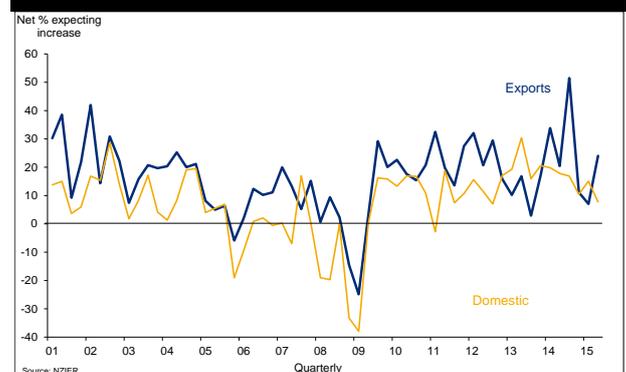
Manufacturing Production Expanding



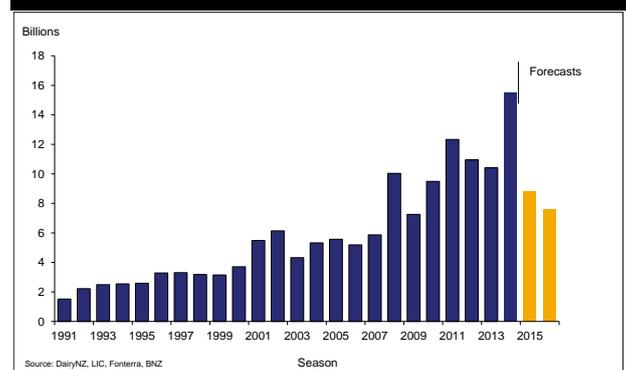
Employment Up Strongly



Manufacturers' Sales Expectations



Very Low Dairy Revenue



Contact Details

BNZ Research

Stephen Toplis

Head of Research
+(64 4) 474 6905

Craig Ebert

Senior Economist
+(64 4) 474 6799

Doug Steel

Senior Economist
+(64 4) 474 6923

Kymerly Martin

Senior Market Strategist
+(64 4) 924 7654

Raiko Shareef

Currency Strategist
+(64 4) 924 7652

Main Offices

Wellington

60 Waterloo Quay
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Phone: +(64 4) 473 3791
FI: 0800 283 269
Fax: +(64 4) 474 6266

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch

81 Riccarton Road
PO Box 1461
Christchurch 8022
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly

Global Head of Research
+(61 2) 9237 1406

Alan Oster

Group Chief Economist
+(61 3) 8634 2927

Ray Attrill

Global Co-Head of FX Strategy
+(61 2) 9237 1848

Skye Masters

Head of Interest Rate Strategy
+(61 2) 9295 1196

Wellington

Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

Sydney

Foreign Exchange +(61 2) 9295 1100
Fixed Income/Derivatives +(61 2) 9295 1166

London

Foreign Exchange +(44 20) 7796 3091
Fixed Income/Derivatives +(44 20) 7796 4761

New York

Foreign Exchange +1 212 916 9631
Fixed Income/Derivatives +1 212 916 9677

Hong Kong

Foreign Exchange +(85 2) 2526 5891
Fixed Income/Derivatives +(85 2) 2526 5891

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

US DISCLAIMER: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

National Australia Bank Limited is not a registered bank in New Zealand.